

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1695 - SB 1678

March 20, 2016

SUMMARY OF BILL: Redefines “transient” for hotel occupancy tax purposes to mean any person who exercises occupancy or is entitled to occupancy of any rooms, lodgings or accommodations in a hotel for a period of less than 90 days, instead of 30 days. Requires at least 80 percent of the proceeds of any tax or expansion of the tax by a municipality, city, town, or county adopted after the effective date of this act to be spent in the promotion and development of tourism.

ESTIMATED FISCAL IMPACT:

Increase Local Revenue – Exceeds \$522,900

Other Fiscal Impact – The net impact on state and local tax revenue of the requirement that 80 percent of proceeds of any hotel tax or expansion of the tax adopted after the effective date of this act to be spent in the promotion of tourism or tourist development cannot be quantified with reasonable certainty due to multiple unknown factors.

Assumptions:

- An effective date of July 1, 2016.
- According to the January 2016 report of the Tennessee Advisory Commission on Intergovernmental Relations, *Structuring Lodging Taxes to Preserve the Economy and Encourage Tourism*, lodging tax revenue in Tennessee in 2014 was approximately \$154,000,000.
- Assuming an annual increase of five percent, lodging tax revenue in 2017, under current law, is estimated to be \$178,274,250 ($\$154,000,000 \times 105\% \times 105\% \times 105\%$).
- According to the American Hotel and Lodging Association’s 2014 Lodging Industry Profile, 41 percent of lodgings are for business purposes and 59 percent of lodgings are for leisure. Further, 37 percent of business travelers and 24 percent of leisure travelers spend three or more nights at a hotel.
- The total lodging tax revenue from travelers spending three or more nights is estimated to be \$52,287,838 [$(\$178,274,250 \times 41\% \times 37\%) + (\$178,274,250 \times 59\% \times 24\%)$].
- The number of such travelers spending between 30 and 90 continuous days is unknown. The proposed legislation is assumed to primarily affect extended stay hotel occupants and workers for whom businesses reserve rooms for periods of more than 30 days.

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- The precise fiscal impact of imposing the hotel occupancy tax on continuous hotel stays of less than 90 days, instead of 30 days, cannot be determined with reasonable certainty. However, it is estimated that the recurring increase in local government revenue will be equal to at least one percent of the estimated current collections from travelers spending three or more nights, or \$522,878 ($\$52,287,837 \times 1\%$).
- Requiring at least 80 percent of the proceeds of any hotel tax or expansion of the tax adopted after the effective date of this act to be spent in the promotion of tourism or tourist development, where such spending is expected to increase lodging stays, sale of on-site prepared food, or visits to convention centers, attractions, museums, and other entertainment or sporting venues, could have a significant impact on state and local revenue.
- However, such requirement will decrease local government revenue available for purposes that would otherwise be specified in ordinances or private acts, which could have an adverse impact on state and local tax revenue.
- The net fiscal impact of such requirement cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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